

UNITED STATES OF AMERICA
Before the
OFFICE OF THRIFT SUPERVISION

In the Matter of

**THE BRATTLEBORO SAVINGS
& LOAN ASSOCIATION, F.A.,**
Brattleboro, Vermont
(OTS No. 02460)

Re: Order No. NE 04- 07

Date: **August 27, 2004**

STIPULATION AND CONSENT TO ISSUANCE OF AN ORDER TO CEASE AND DESIST

This Stipulation and Consent to Issuance of an Order to Cease and Desist ("Stipulation"), which concerns the accompanying and above-referenced Order to Cease and Desist (the "Order"), is submitted by **THE BRATTLEBORO SAVINGS & LOAN ASSOCIATION, F.A.**, Brattleboro, Vermont (the "Bank", OTS No. 02460), to the Office of Thrift Supervision ("OTS"), which is acting through its Northeast Regional Director ("Regional Director").

WHEREAS, the OTS, based upon information derived from the exercise of its regulatory responsibilities, has informed the Bank that the OTS is of the opinion that grounds exist to initiate administrative proceedings against the Bank pursuant to 12 U.S.C. § 1818,¹ and

WHEREAS, the Bank, desiring to cooperate with the OTS to avoid the time and expense of such administrative proceedings and, without admitting or denying that such grounds exist, but only admitting the statements and conclusions in Paragraph 1 below concerning Jurisdiction, hereby stipulates and agrees to the following terms:

1. Jurisdiction.

(a) The Bank is a "savings association" within the meaning of 12 U.S.C. § 1813(b), and 12 U.S.C. § 1462(4). Accordingly, the Bank is an "insured depository institution" as that term is defined in 12 U.S.C. § 1813(c).

(b) Pursuant to 12 U.S.C. § 1813(q), the OTS is the "appropriate Federal banking agency" with jurisdiction to maintain administrative enforcement proceedings against savings associations. Therefore, the Bank is subject to the authority of the OTS to initiate and maintain administrative cease-and-desist proceedings against it pursuant to 12 U.S.C. § 1818(b).

¹ All references in this Stipulation and in the Order are to the United States Code as amended.

2. OTS Findings of Fact.

The OTS, based on its of March 29, 2004 examination of the Bank, found material deficiencies and weaknesses in the Bank's systems, management and implementation of procedures required by: (i) the BSA Laws and Regulations referenced in the Order, and (ii) the OFAC Regulations referenced in the Order. The OTS also has found that the Bank has failed to fully comply with certain requirements of: the Truth in Lending Act and the regulations thereunder at Regulation Z; the Real Estate Settlement Procedures Act and the regulations thereunder at Regulation X; and the Fair Credit Reporting Act.

3. Consent.

(a) The Bank hereby consents to the issuance by the OTS of the Order.

(b) The Bank further agrees to comply with the terms of the Order upon its issuance. The Bank further stipulates and agrees that the Order complies with all requirements of law, as applicable.

4. Finality.

The Order is issued by the OTS under the authority of 12 U.S.C. §§ 1818(b). Upon the issuance of the Order by the OTS, acting by and through the undersigned Regional Director (which term also shall refer to the Regional Director's authorized designees), the Order shall be a final order, effective and fully enforceable by the OTS under the provisions of 12 U.S.C. § 1818(i).

5. Waivers.

The Bank hereby waives the following:

- (i) The right to be served with a written notice of the OTS's charges;
- (ii) The right to an administrative hearing of the OTS's charges; and
- (iii) The right to seek judicial review of either the Order, including, without limitation, any such right provided by 12 U.S.C. § 1818(h), or otherwise to challenge the validity of the Order.

6. Other Government Actions Not Affected.

The Bank acknowledges and agrees that its consent to the issuance of the Order does not release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against, or liability of the Bank that arise pursuant to this action or otherwise, and that may be or have been brought by any other government entity other than the OTS. The Bank further

acknowledges and understands that its stipulation and consent to issuance of the Order only settles contemplated cease-and-desist proceedings, pursuant to 12 U.S.C. § 1818(b), that the OTS has indicated that it could have started based on its findings summarized at paragraph 2 of this Stipulation.

7. Miscellaneous.

(a) The laws of the United States of America shall govern the construction and validity of this Stipulation and of the Order.

(b) All references to the OTS in this Stipulation and the Order shall also mean any of the OTS's predecessors, successors, and assigns.

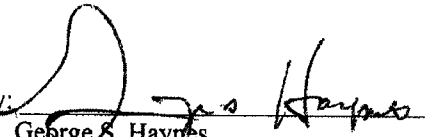
(c) The section and paragraph headings in this Stipulation and the Order are for convenience only, and such headings shall not affect the interpretation of this Stipulation or the Order.

(d) The terms of this Stipulation and of the Order represent the final written agreement of the parties with respect to the subject matters thereof, and constitute the sole agreement of the parties with respect to such subject matters.

(e) This Stipulation and the Order shall remain in effect until terminated, modified, or suspended in writing by the OTS, acting through its Director, Regional Director, or other authorized representative.

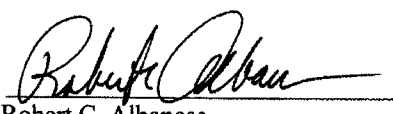
WHEREFORE, the Bank executes this Stipulation, intending to be legally bound hereby.

**THE BRATTLEBORO SAVINGS
& LOAN ASSOCIATION, F.A.**

By: 
George S. Haynes
President and CEO

Date: 8/23/04, 2004

Accepted by:
OFFICE OF THRIFT SUPERVISION

By: 
Robert C. Albanese
Regional Director

Date: See the date in the caption hereof

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THE BRATTLEBORO SAVINGS)
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Brattleboro, Vermont)
(OTS No. 02460))

Order No. NE 04- 07

Date: August 27, 2004

ORDER TO CEASE AND DESIST

WHEREAS, THE BRATTLEBORO SAVINGS & LOAN ASSOCIATION, F.A., Brattleboro, Vermont (the "Bank") has executed a Stipulation and Consent to the Issuance of an Order to Cease and Desist ("Stipulation"); and

WHEREAS, the Bank, by its execution of the Stipulation, has consented and agreed to the issuance of this Order to Cease and Desist ("Order") pursuant to 12 U.S.C. § 1818(b),¹ and

WHEREAS, the Director of the Office of Thrift Supervision ("OTS") has delegated to the Regional Directors of the OTS the authority to issue consent orders on behalf of the OTS pursuant to provisions of Section 8 of Federal Deposit Insurance Act, 12 U.S.C. § 1818.

NOW, THEREFORE, IT IS ORDERED THAT:

1. Compliance With Laws and Regulations.

The Bank and its directors, officers, employees, and agents shall cease and desist from any action (alone or with another or others) for or toward causing, bringing about, participating in, counseling or the aiding and abetting of any violation of:

- (i) The Currency and Foreign Transactions Reporting Act, as amended by the USA Patriot Act and other laws (the "Bank Secrecy Act" or "BSA"), 31 U.S.C. §§ 5311 *et seq.*, and the regulations issued thereunder by the U. S. Department of the Treasury, 31 C.F.R. §§ 103.11 *et seq.*, and the related BSA regulations issued by the OTS, 12 C.F.R. § 563.177 (collectively with the aforementioned laws and regulations, the "BSA Laws and Regulations"), including but not limited to 31 C.F.R. §§ 103.22 and 103.29 and 12 C.F.R. § 563.177;
- (ii) The Truth in Lending Act, 15 U.S.C. §§ 1601 *et seq.*, and the regulations ("Regulation Z") issued thereunder by the Board of Governors of the Federal Reserve System ("FRB"), 12 C.F.R. Part 226, including but not limited to 12 C.F.R. § 226.19 (requiring,

¹ All references to the United States Code ("U.S.C.") are as amended, unless otherwise indicated.

- inter alia*, timely disclosures to residential mortgage loan applicants);
- (iii) The Real Estate Settlement Procedures Act, 12 U.S.C. §§ 2601 *et seq.*, and the regulations ("Regulation X") issued thereunder by the U.S. Department of Housing and Urban Development, 24 C.F.R. Part 3500, including but not limited to 24 C.F.R. 3500.7 (concerning good faith estimates to be provided to mortgage loan applicants); and
 - (iv) The Fair Credit Reporting Act, 15 U.S.C. §§ 1681 – 1681u, including but not limited to 15 U.S.C. § 1681m (imposing duties on creditors taking adverse actions on the basis of information contained in consumer credit reports).

2. Effective Anti-Money Laundering/BSA Compliance Program Required.

(a) The Bank shall utilize the services of an independent, external BSA consultant (the "BSA Consultant"), who must be acceptable to the OTS, for the following purposes:

- (i) To evaluate and prepare a report on the Bank's BSA Compliance Program,
- (ii) To assist the Bank in amending its BSA Program so that such program is effective and causes the Bank to fulfill its responsibilities under the BSA Laws Regulations and this Order, and
- (iii) To assist the Bank in developing the Bank's plan (including policies and procedures) designed to ensure compliance with the OFAC regulations, as required by Paragraph 5 of this Order.

(b) Following consideration of the study, report and recommendations of the BSA Consultant, and within 60 days of the Effective Date hereof, the Bank shall adopt, and commence implementation and monitoring of amendments to its BSA Compliance Program so that such amended program will effectively ensure the Bank's compliance with the requirements of the BSA Laws and Regulations and the terms of this Order. The amendments to the BSA Compliance Program (including the various programs, plans and policies required by Paragraphs 3, 4, and 5 of this Order) must be approved by the Bank's Board ("Board") and be reflected in the minutes of the meeting at which such approval occurs.

(c) To be acceptable, the enhanced BSA Compliance Program, at a minimum, shall:

- (i) Provide for a system of *internal controls* to ensure compliance with the BSA Laws and Regulations, including policies and procedures to detect and monitor all transactions to ensure that they are not being conducted for illegitimate purposes and that there is full compliance with all applicable laws and regulations;
- (ii) Provide for *independent testing* of compliance with all applicable BSA Laws and Regulations and all applicable regulations requiring the reporting of suspicious transactions, and ensure that compliance audits are performed frequently, are fully documented, and are conducted with the appropriate segregation of duties;

(iii) Ensure that the Bank's designated BSA Officer is actively *managing, coordinating and monitoring* the Bank's day-to-day compliance with the BSA Laws and Regulations and the Bank's BSA Compliance Program. The Bank's designated BSA officer shall have day-to-day responsibility for all BSA compliance and related matters, including, without limitation: (A) the filing of Currency Transaction Reports where required, (B) the identification and timely, accurate and complete reporting to law enforcement and supervisory authorities of unusual or suspicious activity or known or suspected criminal activity perpetrated against or involving the Bank, and (C) monitoring the Bank's compliance and ensuring that full and complete corrective action is taken with respect to previously identified violations and deficiencies;

(iv) Provide, no less than annually, meaningful BSA-related *training* by qualified consultants or other qualified personnel for all appropriate Bank personnel; and

(v) Provide for the Bank to take the corrective actions (including enhancement of certain procedures) that were set out in the OTS Report of Examination mailed to the Bank on July 2, 2004.

(d) The Bank's Board shall monitor and update the BSA Compliance Program on an ongoing basis as necessary to adjust to: (i) changes in the Bank's operations that may impact on its compliance with the BSA and regulations thereunder and (ii) changes to the BSA Laws and Regulations (as well as related forms).

3. Enhanced Customer Due Diligence: Suspicious Activity Reporting Enhancements.

(a) Following consideration of the study, report and recommendations of the BSA Consultant, and within 60 days of the Effective Date hereof, the Bank shall incorporate into its BSA Compliance Program, as amended in conformity with Paragraph 2 of this Order, an acceptable, enhanced and effective written customer-due-diligence-and-suspicious-activity-reporting program. The program shall be designed to reasonably ensure the identification and complete reporting, in an accurate and complete manner, of known or suspected criminal activity against or involving the Bank to law enforcement and supervisory authorities, as required by the suspicious activity reporting provisions of 12 C.F.R. §§ 563.180(d) and 31 C.F.R. § 103.18 (collectively the "SAR Regulations").

(b) The enhanced program shall provide for a risk focused assessment of the Bank's customer base that (i) documents the Bank's expectations about the normal range of banking activities and the types of transactions that the customer is likely to be engaged ("Transaction Profile") and (ii) describes the appropriate level of enhanced due diligence necessary for those categories of customers who the Bank has reason to believe pose a heightened risk of questionable activities at or through the Bank.

4. BSA Training.

(a) Following consideration of the study, report and recommendations of the BSA Consultant, and within 60 days of the Effective Date hereof, the Bank's Board shall develop, implement, and thereafter ensure Bank adherence to a comprehensive training program for all appropriate operational and supervisory personnel to ensure their awareness of their responsibility for compliance with the requirements of: (i) the BSA Laws and Regulations, (ii) the OFAC Regulations, and (iii) the SAR Regulations.

(b) The required comprehensive training program should include strategies for mandatory attendance, the frequency of training, procedures and timing for updating training programs and materials, and the method for delivering training.

5. Plan for OFAC Compliance.

Following consideration of the study, report and recommendations of the BSA Consultant, and within 60 days of the Effective Date hereof, the Bank shall develop, adopt and commence implementation of a written plan ("OFAC Compliance Plan") that is designed to ensure that: (i) the Bank complies with the regulations of the U.S. Department of the Treasury's Office of Foreign Asset Control (31 C.F.R. Part 500, as well as any rules and guidelines issued or administered by OFAC), and (ii) the Bank does not violate 18 U.S.C. § 2339B (prohibiting material support or resources to designated foreign terrorist organizations). The OFAC Compliance Plan should be coordinated with the BSA Compliance Program. At a minimum, the OFAC Compliance Plan shall include procedures to ensure that customer transactions are processed in accordance with OFAC requirements (as specified in regulations and other applicable guidance) and in accordance with a regularly updated list of entities and individuals whose transactions or assets are required to be blocked, frozen or monitored. Pursuant to the OFAC Compliance Plan the Bank shall establish and implement procedures: (i) to provide enough information to key staff members in all relevant operations to enable them to recognize and stop/interdict suspect transactions for further review before they are processed; and (ii) to provide a documentary audit trail demonstrating the Bank's efforts to avoid violations of 18 U.S.C. § 2339B and the OFAC regulations.

6. Compliance Program Management, Staffing and Resources.

(a) The Bank, at all times, shall have and implement an effective Compliance Management Program (i.e., program for implementing and adhering to the BSA and other Compliance Laws), which shall be managed and implemented by a qualified Compliance Officer.

(b) Within sixty (60) days of the Effective Date hereof (or such later date as may be permitted by the Regional Director), the Bank shall hire an individual (or designate an existing officer or employee) to serve as the Bank's Compliance Officer. Any such individual or existing employee must have the appropriate background, qualifications, and experience to serve as the Bank's Compliance Officer. The Compliance Officer, shall be responsible for: (i) developing, overseeing and managing the Bank's Compliance Management Program, and (ii) serving as the Bank's designated BSA Officer.

(c) The Bank's Board shall ensure that the Compliance Officer has sufficient authority, competency, time, staff (which may include outsourced staff) and resources to perform his/her assigned BSA-related and other compliance management responsibilities on a day-to-day basis.

(d) Within ninety (90) days of the Effective Date hereof, the Bank's board of directors shall consider and adopt an appropriate written Compliance Management Program, customized to the needs of the Bank, that, at a minimum, incorporates the following six SMAART components (which are described further in the OTS's written guidebook entitled "Compliance: A Self-Assessment Guide"):

Systems	The embodiment of task-specific procedures and internal controls that ensure that transactions are conducted and recorded in compliance with legal obligations and customer-service goals.
Monitoring	The process of supervising the day-to-day or week-to-week functioning of the Bank's compliance systems to assure real-time execution in accordance with program standards.
Assessment	The periodic review of system records and operations to identify transactional violations and program deficiencies.
Accountability	The arrangement of responsibility, authority and reporting relationships that provides direction to staff for implementing institution compliance policy and apprises senior management and the directors about compliance program performance.
Response	The process of addressing consumer complaints, remedying regulatory violations, amending procedures and controls, correcting internal oversight

	deficiencies, and implementing policy and system revisions or updates.
Training	The communication to appropriate Bank personnel of compliance policies, procedures, directives, regulatory requirements, product information and service goals. Also addressed by this component is the commitment and manner in which the Bank develops and maintains staff expertise.

7. Board Compliance Committee.

(a) Within 30 days of the Effective Date of this Order, the Board shall appoint a committee (the "Regulatory Compliance Committee") comprised of three or more directors, the majority of whom shall be Independent of Management,² to monitor and coordinate the Bank's compliance with the provisions of this Order.

(b) By October 31, 2004 and thereafter within 30 days after the end of each calendar quarter, the Regulatory Compliance Committee shall submit a written progress report to the Board detailing the actions taken to comply with each provision of this Order and the results of those actions.

(c) By November 15, 2004 and thereafter within 45 days after the end of each calendar quarter, the Board shall submit to the Regional Director: (i) a copy of the Regulatory Compliance Committee's quarterly progress report required by the foregoing subparagraph, with any additional comments made by the Board, to the Regional Director, and (ii) a written certification that each director has reviewed the report.

8. Submissions to OTS.

Various provisions of this Order require the Bank to make submissions to OTS for its approval, non-objection or notice of acceptability. All such submissions shall be in written form, following appropriate due diligence, inquiry and satisfaction of the Bank's internal approval processes. Each such submission shall: (i) summarize the Bank's inquiry and due diligence efforts, (ii) identify the internal approval process (*e.g.*, Board or Board Committee approval) that has been satisfied, and (iii) otherwise comport with any applicable regulatory requirement governing such submissions.

² As used in this Order, the phrase "Independent of Management" means that the person: (i) is not an officer, employee or consultant of the Bank, (ii) is not, either by blood or marriage, related to any existing Bank director, officer or their attorneys or consultants, (iii) does not currently have a business or professional relationship with any existing Bank director, officer or their attorneys or consultants and (iv) to the extent not inconsistent with the foregoing, meets the criteria set forth at 12 C.F.R. Part 363 and Appendix A thereof.

9. Definitions.

All technical words or terms used in this Order for which meanings are not specified or otherwise provided by the provisions of this Order shall, insofar as applicable, have meanings as defined in Chapter V of Title 12 of the Code of Federal Regulations, the Home Owners' Loan Act ("HOLA"), the Federal Deposit Insurance Act ("FDIA"), OTS Memoranda or other published OTS guidance. Any such technical words or terms used in this Order and undefined in said Code of Federal Regulations, the HOLA, the FDIA, or OTS Memoranda/guidance shall have meanings that are in accordance with the best custom and usage in the savings and loan industry.

10. Successor Statutes, Regulations, Guidance, Amendments.

Reference in this Order to provisions of statutes, regulations, OTS Memoranda, and other published regulatory guidance shall be deemed to include references to all amendments to such provisions as have been made as of the Effective Date and references to successor provisions as they become applicable.

11. No Violations Authorized; OTS Not Restricted.

Nothing in this Order or the Stipulation shall be construed as: (a) allowing the Bank to violate any law, rule, regulation, or policy statement to which it is subject, or (b) restricting or estopping the OTS from taking any action(s) that it believes are appropriate in fulfilling the responsibilities placed upon it by law including, without limitation, any type of supervisory, enforcement or other action that OTS determines to be appropriate, arising out of matters described in the most recent Report of Examination, or based on other matters.

12. Time Limits; Effect of Headings; Separability Clause; Stipulation Incorporated.

(a) Time limitations for compliance with the terms of this Order run from the Effective Date, unless otherwise noted.

(b) The section and paragraph headings herein are for convenience only and shall not affect the construction hereof.

(c) In case any provision in this Order is ruled to be invalid, illegal or unenforceable by the decision of any court of competent jurisdiction, the validity, legality and enforceability of the


remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his/her sole discretion determines otherwise.

(d) The Stipulation is made a part hereof and is incorporated herein by this reference.

13. Effective Date; Duration.

This Order is and shall become effective on the date it is issued, *i.e.*, the Effective Date as shown on the first page hereof. This Order (including the related Stipulation) shall remain in effect until terminated, modified or suspended, in writing by the OTS, acting through its Director, Regional Director or other authorized representative.

OFFICE OF THRIFT SUPERVISION

By: 
Robert C. Albanese
Regional Director, Northeast Region